

Message Text

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PAGE 01 BONN 08210 221823Z

71

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 2729

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UNCLAS BONN 8210

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652:N/A

TAGS: EFIN, GW

SUBJECT: BUNDESTAG PASSES DM 136.4 BILLION FEDERAL BUDGET FOR 1974

REF: BONN 12810 OF SEPTEMBER 6,1973

1. AFTER EXTENSIVE DEBATE ON MAY 21-22, THE BUNDESTAG PASSED THE 1974 DRAFT BUDGET OF THE FEDERAL GOVERNMENT, AS AMENDED BY THE BUNDESTAG BUDGET COMMITTEE (LARGELY IN RESPONSE TO GOVERNMENT PROPOSALS). THE BILL AS IT NOW STANDS PROVIDES FOR EXPENDITURE OF DM 136.4 BILLION AND REVENUE OF DM 128 BILLION. THE RESULTING DM 8.4 BILLION DEFICIT IS TO BE FINANCED BY NET BORROWING OF DM 7.6 BILLION AND REDUCTION OF RESERVES BY DM 0.6 BILLION; THE REMAINING DM 0.2 BILLION IS BUDGETED TO COME FROM SENIORAGE. THE GOVERNMENT'S ORIGINAL DRAFT SUBMITTED LAST FALL ENVISAGED EXPENDITURES OF DM 134.4 BILLION, REVENUES OF DM131.9 BILLION, AND A DEFICIT OF DM 2.5 BILLION (SEE REFTEL).

2. THE INCREASE IN PROPOSED EXPENDITURES BY DM 2 BILLION IS LARGELY ATTRIBUTABLE TO THE FACT THAT RECENT PAY BOOSTS FOR CIVIL SERVANTS FAR EXCEEDED PREVIOUSLY CONTEMPLATED LEVELS. THE REDUCTION OF REVNUUE ESTIMATES BY DM 3.9 BILLION REFLECTS A

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PAGE 02 BONN 08210 221823Z

DOWNWARD REVISION OF THE AUGUST 1973 TAX REVENUE ESTIMATES FOR

1974 USED IN THE GOVERNMENT'S ORIGINAL DRAFT. DM 1.1 BILLION OF THE CUT IS ACCOUNTED FOR BY THE RECENTLY APPROVED REDUCTION OF THE FEDERAL GOVERNMENT'S SHARE IN TVA TAX RECEIPTS (FROM 65 PERCENT TO 63 PERCENT) IN FAVOR OF THE STATES.

3. FEDERAL EXPENDITURES OF DM 136.4 BILLION WOULD MEAN AN INCREASE BY 13.4 PERCENT OVER APPROVED 1973 OUTLAYS AND BY 12 PERCENT OVER LAST YEAR'S ACTUAL EXPENDITURES. THE ORIGINAL DRAFT WOULD HAVE MEANT AN INCREASE OF ONLY 11.7 PERCENT (10.4 PERCENT OVER ACTUAL EXPENDITURES). EXPANSION OF THE BUDGET WAS SHARPLY CRITICIZED BY OPPOSITION SPOKESMEN, WHO DEMANDED THAT THE BUDGET BE REDUCED BY DM 2 BILLION, I.E., TO THE ORIGINALLY PROPOSED LEVEL. HOWEVER, THIS MOVE WAS REJECTED BY THE COALITION PARTIES, NEW FINANCE MINISTER, HANS APEL, DEFENDED THE NEWLY CONTEMPLATED LEVEL OF EXPENDITURES AS UNAVOIDABLE AND COMMENSURATE WITH THE UNDERLYING BUSINESS SITUATION.

4. THE SECOND READING OF THE DRAFT BUDGET IN THE BUNDESRAT, THE LAST STEP IN THE LEGISLATIVE PROCESS PRIOR TO SIGNATURE BY THE PRESIDENT, HAS TENTATIVELY BEEN SCHEDULED FOR MAY 31.
HILLENBRAND

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